



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
BADGETT REGIONAL COOPERATIVE
FOR EDUCATIONAL ENHANCEMENT, INC.**

Fiscal Year Ended June 30, 2000

REVISED MARCH 2, 2001

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary, Finance and Administration Cabinet

Gene Wilhoit, Commissioner, Department of Education

Robert S. Sherman, Director, Legislative Research Commission

Carolyn Ferrell, Executive Director,

Badgett Regional Cooperative For Educational Enhancement, Inc.

Board of Directors of the Badgett Regional Cooperative For Educational Enhancement, Inc.

The enclosed report prepared by York, Neel & Co. - Madisonville, LLP, Certified Public Accountants, presents the financial statements of the Badgett Regional Cooperative For Educational Enhancement, Inc., Madisonville, Kentucky, as of June 30, 2000.

We engaged York, Neel & Co. - Madisonville, LLP, to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; York, Neel & Co. - Madisonville, LLP, evaluated the Badgett Regional Cooperative For Educational Enhancement, Inc.'s internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", written over a horizontal line.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Badgett Regional Cooperative for
Educational Enhancement, Inc.
Madisonville, Kentucky

We have audited the accompanying statement of assets, liabilities and net assets - cash basis of the Badgett Regional Cooperative For Educational Enhancement, Inc. (a nonprofit organization) as of June 30, 2000 and 1999, and the related statement of revenues, expenses and changes in net assets - cash basis for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1(b), the Badgett Cooperative prepares its financial statements on the basis of cash receipts and disbursements except that the statements include a provision for depreciation of buildings and equipment. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets - cash basis of Badgett Regional Cooperative For Educational Enhancement, Inc. as of June 30, 2000 and 1999, and the results of its revenues, expenses and change in net assets - cash basis for the years then ended on the basis of accounting described in Note 1(b).

In accordance with *Government Auditing Standards*, we have issued a report dated November 20, 2000 on our consideration of Badgett Regional Cooperative For Educational Enhancement, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. In addition, the supplementary information contained on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements referred to above and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

York, Neel & Co. - Madisonville, LLP

November 20, 2000

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS

June 30, 2000 and 1999

ASSETS

	<u>2000</u>	<u>1999</u>
Current assets:		
Cash	\$ 196,016	\$ 122,192
Total current assets	196,016	122,192
Restricted cash	261,770	588,083
Land, buildings and equipment, net	<u>259,695</u>	<u>240,766</u>
Total assets	<u>\$ 717,481</u>	<u>\$ 951,041</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Long-term debt, due within one year	\$ 4,020	\$ 3,712
Payroll taxes payable	<u>-</u>	<u>1,141</u>
Total current liabilities	<u>4,020</u>	<u>4,853</u>
Deferred revenue - staff development:		
School Districts	139,564	155,363
Others	<u>102,542</u>	<u>170,608</u>
	<u>242,106</u>	<u>325,971</u>
Long-term debt, less current portion	<u>73,942</u>	<u>77,163</u>
Net assets:		
Unrestricted	379,404	287,047
Temporarily restricted	<u>18,009</u>	<u>256,007</u>
	<u>397,413</u>	<u>543,054</u>
Total liabilities and net assets	<u>\$ 717,481</u>	<u>\$ 951,041</u>

The accompanying notes are an integral part of the financial statements.

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - CASH BASIS
for the years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Changes in unrestricted net assets:		
Revenues:		
Professional staff development	\$ 1,114,500	\$ 1,018,934
Administrative services	146,764	134,411
Contributions	75,100	75,005
Sales	1,345	966
Interest income	24,467	10,256
Electronic Community School Fees	<u>96,371</u>	<u>29,988</u>
Total unrestricted revenues	<u>1,458,547</u>	<u>1,269,560</u>
Net assets released from restrictions:		
Satisfaction of program restrictions:		
Goals 2000 federal funds	134,900	108,719
Title I migrant program	1,317,894	1,185,583
School to Work	303,834	32,380
Perkins Vocational, Title I	16,755	-
Contributions	<u>678</u>	<u>-</u>
Total net assets released from restrictions	<u>1,774,061</u>	<u>1,326,682</u>
Total unrestricted revenues and other support	<u>3,232,608</u>	<u>2,596,242</u>
Expenses:		
Program services:		
Grants:		
Migrant Title I	1,316,131	1,177,818
Goals 2000	139,525	110,453
School to Work	274,052	32,380
Perkins Vocational, Title I	10,219	-
Professional staff development:		
Staff development	1,093,560	1,074,224
Administration	101,022	130,873
Electronic Community School	<u>49,956</u>	<u>-</u>
Total program services	2,984,465	2,525,748
Management and general	<u>155,787</u>	<u>165,551</u>
Total expenses	<u>3,140,252</u>	<u>2,691,299</u>
Increase (decrease) in unrestricted net assets	<u>92,356</u>	<u>(95,057)</u>
Changes in temporarily restricted net assets:		
Contributions	-	678
Goals 2000 Grant	134,900	50,000
Chapter I Migrant Grant	1,072,000	1,296,407
School to Work	312,409	32,380
Perkins Vocational Grant, Title I	16,755	-
Net assets released from restrictions	<u>(1,774,061)</u>	<u>(1,326,682)</u>
Increase (decrease) in temporarily restricted net assets	<u>(237,997)</u>	<u>52,783</u>
Increase (decrease) in net assets	(145,641)	(42,274)
Net assets - beginning	<u>543,054</u>	<u>585,328</u>
Net assets - ending	<u>\$ 397,413</u>	<u>\$ 543,054</u>

The accompanying notes are an integral part of the financial statements.

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The Badgett Regional Cooperative For Educational Enhancement, Inc. (the "Cooperative") is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Badgett Regional Cooperative For Educational Enhancement, Inc. is to provide professional staff development for educators in certain Western Kentucky school districts and to serve as a regional coordinator of the Federal Title I Migrant and School-to-Work programs.

The significant accounting policies followed by the Cooperative are described below:

a. Financial Reporting

Financial statements of the Cooperative are prepared in accordance with the American Institute of Certified Public Accountants industry audit and accounting guide, *Not-For-Profit Organizations*.

b. Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. Under that basis, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles primarily because the Cooperative has not recognized accounts receivable for services rendered and accounts payable to vendors and their related effects on earnings in the accompanying financial statements.

c. Land, Buildings and Equipment

Land, buildings and equipment are stated at original cost at date of acquisition or fair value at the date of donation in the case of gifts. It is the Cooperative's policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed. Furniture and equipment are being depreciated over estimated useful lives of five to seven years using a double declining balance method, with a half of a year's depreciation recognized in the years of acquisition and disposal. Building and improvements are being depreciated over estimated useful lives of twenty-seven to thirty-two years using a straight line method.

d. Deferred Revenue - Staff Development

School Districts

The balance of \$139,564 and \$155,363 at June 30, 2000 and 1999, respectively, represents the transfer of state professional development monies from the participating school districts to the Cooperative for payment of future District staff development expenditures.

Others

The balance of \$102,542 and \$170,608 at June 30, 2000 and 1999, respectively, represents the transfer of State and other entity monies to the Cooperative for payment of future staff development expenditures.

e. Public Support and Recognition of Donor Restrictions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Cooperative receives a substantial amount of its support from the State Department of Education and local school districts. A significant reduction in the level of this support could have an effect on the Cooperative's programs and activities.

Continued

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued

f. Donated Materials and Services

Donated material and equipment are reflected as contributions in the accompanying statements at their estimated value at date of receipt. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services.

g. Allocation of Functional Expenses

It is the Cooperative's policy to allocate functional expenses according to various fixed percentages. The percentages are determined by Cooperative management and are based on management's estimate of functional usage.

h. Revenue Recognition

Substantially all of the Cooperative's revenue is derived from professional staff development allocations and Federal Migrant Grants. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

i. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and deferred revenues and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

j. Reclassifications

Certain amounts from the preceding year have been reclassified to conform to the current year presentation. These reclassifications had no effect on the prior year results of operations.

2. Cash and Cash Equivalents

At June 30, 2000 and 1999, the carrying amount of the Cooperative's cash and cash equivalents were \$457,786 and \$710,275, respectively; and the bank balances were \$713,292 and \$837,560, respectively. At June 30, 2000, of the bank balances, \$200,000 was insured by federal depository insurance, \$513,292 was covered by collateral held by the Cooperative's counterparty (pledging bank) in the Cooperative's name. At June 30, 1999, of the bank balances, \$200,000 was insured by federal depository insurance, \$486,235 was covered by collateral held by the Cooperative's counterparty (pledging bank) in the Cooperative's name, and \$151,325 was uncollateralized.

The Cooperative's cash and cash equivalents at June 30, 2000 and 1999 consisted of the following:

	2000		1999	
	<u>Bank</u>	<u>Book</u>	<u>Bank</u>	
<u>Book</u>				
<u>Fifth Third</u>				
Adm. checking	\$ 195,183	\$ 176,244	\$ 15,400	\$ 9,448
Adm. sweep	-	-	106,262	106,262
Prof. Dev. checking	380,374	262,889	29,500	25,371
Prof. Dev. sweep	-	-	304,947	304,947
Migrant checking	-	-	130,126	12,922
<u>Old National</u>				
Migrant Checking	<u>137,735</u>	<u>18,653</u>	<u>251,325</u>	<u>251,325</u>
	<u>\$ 713,292</u>	<u>\$ 457,786</u>	<u>\$ 837,560</u>	<u>\$ 710,275</u>

Continued

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
NOTES TO FINANCIAL STATEMENTS

3. Restricted Cash

Restricted cash at June 30, 2000 and 1999 consists of the following:

	<u>2000</u>	<u>1999</u>
School-to-Work	\$ 8,575	\$ -
Title I Migrant	9,434	255,328
Professional staff development:		
Caldwell County	8,017	3,961
Christian County	49,618	53,824
Dawson Springs	-	3,024
Henderson County	20,851	-
Hopkins County	19,961	25,029
McLean County	1,390	3,603
Muhlenberg County	26,434	50,001
Providence	2,971	3,434
Todd County	-	6,097
Trigg County	10,596	13,174
Special Projects	644	500
James Madison Middle School	40	84
Hopkins County	-	2,400
Kentucky Department of Education		
Professional Development	102,370	94,711
Henderson CSIF	<u>869</u>	<u>72,913</u>
	<u>\$ 261,770</u>	<u>\$ 588,083</u>

4. Land, Buildings and Equipment

Land, buildings and equipment at June 30, 2000 and 1999 consists of the following:

	<u>2000</u>	<u>1999</u>
Land and improvements	\$ 45,976	\$ 45,976
Buildings and improvements	151,093	151,093
Furniture and equipment	261,029	246,867
Migrant equipment	58,677	39,217
Goals 2000 equipment	25,203	25,203
Vocational equipment	9,043	-
School-to-work equipment	<u>37,227</u>	<u>-</u>
	588,248	508,356
Less accumulated depreciation	<u>328,553</u>	<u>267,590</u>
Net	<u>\$ 259,695</u>	<u>\$ 240,766</u>

Depreciation expense was \$60,963 and \$48,937 for the years ended June 30, 2000 and 1999, respectively.

Migrant, Goals 2000, School-to-Work and Perkins Vocational Title I equipment were purchased with federal funds. The purchase and disposal of the equipment must be approved by the grantor agency.

Continued

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
NOTES TO FINANCIAL STATEMENTS

5. Long-Term Debt

Badgett Regional Cooperative For Educational Enhancement, Inc.'s long-term debt at June 30, 2000 and 1999 consists of the following:

	<u>2000</u>	<u>1999</u>
Real estate mortgage with financial institution, 8% fixed rate, monthly payments of interest and principal of \$835, beginning November 23, 1992 and ending September 23, 2002 with a balloon payment of \$67,332 on October 23, 2002; secured by real estate.	\$ 77,962	\$ 80,875
Less: amounts due within one year	<u>4,020</u>	<u>3,712</u>
Total long-term amount, due after one year	<u>\$ 73,942</u>	<u>\$ 77,163</u>

Maturities on long-term debt at June 30, 2000 are as follows:

Year ended
June 30,

2001	\$ 4,020
2002	4,353
2003	<u>69,589</u>
	<u>\$ 77,962</u>

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2000 and 1999 are available for the following purposes:

	<u>2000</u>	<u>1999</u>
Caldwell County Special	\$ -	\$ 582
Hopkins County Special	-	97
Migrant program	9,434	255,328
School-to-Work	<u>8,575</u>	<u>-</u>
	<u>\$ 18,009</u>	<u>\$ 256,007</u>

7. Related Parties

The Cooperative's Executive Director, Secretary, and Migrant Secretary are employees of the Hopkins County Board of Education. The Cooperative has, on a contract basis, reimbursed the Hopkins County Board of Education as of June 30, 2000 and 1999, \$121,567 and \$110,008, respectively, for the salaries and fringe benefits of these employees. The School-to-Work Coordinator is an employee of the Christian County Board of Education. As of June 30, 2000, the Cooperative reimbursed the Christian County Board of Education \$33,842 for the salary and fringe benefit of this employee.

The Hopkins County and Christian County Boards of Education are participants in the Badgett Cooperative's professional staff development and Title I Migrant activities. In addition, Christian County is a participant in the School-to-Work program.

Continued

SUPPLEMENTAL INFORMATION

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

for the years ended June 30, 2000 and 1999

	2000			1999		
	Program Services	Manage- ment and General	Total Expenses	Program Services	Manage- ment and General	Total Expenses
Salaries	\$ 161,422	\$ 88,642	\$ 250,064	\$ 186,629	\$ 99,256	\$ 285,885
Salaries-Title I Migrant Program	865,389	-	865,389	844,731	-	844,731
Employee fixed charges	104,721	11,550	116,271	98,496	3,818	102,314
Insurance	-	3,867	3,867	1,935	5,538	7,473
Office expense	279	5,272	5,551	9,968	6,813	16,781
Staff development expenditure	1,175,436	-	1,175,436	1,080,926	-	1,080,926
Supplies	8,729	-	8,729	1,584	-	1,584
Utilities	370	6,219	6,589	11,578	6,506	18,084
Building and ground maintenance	-	4,959	4,959	-	7,629	7,629
Travel	72,100	3,200	75,300	59,337	7,408	66,745
Welfare expense	40,487	-	40,487	27,047	-	27,047
Interest	-	7,109	7,109	-	6,181	6,181
Instructional fees and materials	174,830	-	174,830	83,602	-	83,602
Telephone	19,980	6,981	26,961	5,318	6,761	12,079
Other expense	7,830	2,006	9,836	3,817	1,141	4,958
Legal and professional	11,345	5,982	17,327	16,776	6,300	23,076
Parent involvement	12,528	-	12,528	7,192	-	7,192
Regional administration	3,000	-	3,000	13,695	-	13,695
School to Work	266,607	-	266,607	32,380	-	32,380
Perkins Vocational Title I	8,449	-	8,449	-	-	-
Total expenses before depreciation	2,933,502	145,787	3,079,289	2,485,011	157,351	2,642,362
Depreciation	50,963	10,000	60,963	40,737	8,200	48,937
	<u>\$ 2,984,465</u>	<u>\$ 155,787</u>	<u>\$ 3,140,252</u>	<u>\$ 2,525,748</u>	<u>\$ 165,551</u>	<u>\$ 2,691,299</u>

**BADGETT REGIONAL COOPERATIVE FOR
EDUCATIONAL ENHANCEMENT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2000**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Program or Award	Cash July 1, 1999	Receipts or Revenues Recognized	Federal Disburse- ments
<u>U.S. Department of Education</u>						
Passed through State Department of Education:						
Title I, Migrant	84.011 84.011	0531-99-02-7413 0531-99-02-7413	\$1,369,100 1,068,225	- \$255,328	\$1,072,000 -	\$1,062,566 255,328
			2,437,325	255,328	1,072,000	1,317,894
Goals 2000 Integrated Systemic Reform	84.276A 84.276A	BRCEE - 99 Todd and Trigg - 99	91,900 93,000	8,206 (9,266)	41,900 93,000	50,106 83,734
			184,900	(1,060)	134,900	133,840
Title II - Math and Science	84.281	1999	17,000	6,175	-	6,175
Perkins Vocational Title I, Part C	84.048	1999, Carryforward	1,867 22,558	- -	1,586 15,168	1,586 15,905
			24,425	0	16,754	17,491
Passed through Cabinet for Workforce Development - Office of School-to-Work:						
School-to-Work	84.278 84.278 84.278	SA-9803-01 SA-9903-01 SA-9903-04	275,000 115,000 10,000	- - -	240,957 61,453 10,000	240,957 52,878 10,000
			400,000	0	312,410	303,835
TOTAL FEDERAL AWARDS				\$260,443	\$1,536,064	\$1,779,235

Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of the Badgett Regional Cooperative for Education Enhancement, Inc. and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements, primarily capitalization and depreciation of fixed assets.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Directors
Badgett Regional Cooperative for
Educational Enhancement, Inc.
Madisonville, Kentucky

We have audited the financial statements of Badgett Regional Cooperative for Educational Enhancement, Inc. (a nonprofit organization) as of and for the year ended June 30, 2000, and have issued our report thereon dated November 20, 2000. As described in Note 1(b), the Badgett Cooperative prepares its financial statements on the basis of cash receipts and disbursements except that the statements include a provision for depreciation of buildings and equipment. This basis is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Badgett Regional Cooperative for Educational Enhancement, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Badgett Regional Cooperative for Educational Enhancement, Inc. in a separate letter dated November 20, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Badgett Regional Cooperative for Educational Enhancement, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Badgett Regional Cooperative for Educational Enhancement, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item B-2000-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management, the Kentucky State Auditor for Public Accounts, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

York, Neel & Co. - Madisonville, LLP

November 20, 2000

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Members of the Board of Directors
Badgett Regional Cooperative for
Educational Enhancement, Inc.
Madisonville, Kentucky

Compliance

We have audited the compliance of Badgett Regional Cooperative for Educational Enhancement, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. Badgett Regional Cooperative for Educational Enhancement, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Badgett Regional Cooperative for Educational Enhancement, Inc.'s management. Our responsibility is to express an opinion on Badgett Regional Cooperative for Educational Enhancement, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Badgett Regional Cooperative for Educational Enhancement, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Badgett Regional Cooperative for Educational Enhancement, Inc.'s compliance with those requirements.

In our opinion, Badgett Regional Cooperative for Educational Enhancement, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

The management of Badgett Regional Cooperative for Educational Enhancement, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Badgett Regional Cooperative for Educational Enhancement, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Badgett Regional Cooperative for Educational Enhancement, Inc.'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item C-2000-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management, the Kentucky State Auditor of Public Accounts, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

York, Neel & Co. - Madisonville, LLP

November 20, 2000

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

for the year ended June 30, 2000

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Badgett Regional Cooperative For Educational Enhancement, Inc. The financial statements have been prepared on the basis of cash receipts and disbursements except that the statements include a provision for depreciation of buildings and equipment.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Report on Compliance with *Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Badgett Regional Cooperative For Educational Enhancement, Inc. were disclosed during the audit.
4. One reportable condition disclosed during the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. This condition is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for the Badgett Regional Cooperative For Educational Enhancement, Inc. expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the Badgett Regional Cooperative For Educational Enhancement, Inc. are reported in Part C of this Schedule.
7. The program tested as a major program:

Title 1, Migrant	84.011
School-to-Work	84.278
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Badgett Regional Cooperative For Educational Enhancement, Inc. was not determined to be a low risk auditee.

B. Findings-Financial Statements Audit

Reportable Condition

2000-1. Control of Risk Related to Lack of Segregation of Duties:

Condition: Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust is necessitated. Ideally, each key step of an accounting system should be segregated among employees. However, this is not always feasible due to the cost versus benefit relationship inherent in providing internal control. In the process of segregating functions among employees, management must make decisions relating to the applicable costs in comparison to expected benefits achieved.

Recommendation: Job responsibilities within the accounting area should be continually reviewed and, where feasible, duties be switched to provide better segregation of incompatible work functions.

Response: We concur with the recommendation and are continually reviewing job responsibilities for better accounting controls.

Continued

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

for the year ended June 30, 2000

C. Findings and Questioned Costs -Major Federal Award Program Audit

Reportable Conditions

Department of Education Title 1 - Migrant - CFDA No. 84.011 and School-to-Work - CFDA No. 84.278.

2000-1. Finding B-2000-1 also applies to these grants.

D. Schedule of Prior Audit Findings

Department of Education

99-1 Reportable Condition: Title I - Migrant - CFDA No. 84.011

Reportable Condition: Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual. We recommend job responsibilities within the accounting area should be continually reviewed and, where feasible, duties be switched to provide better segregation of incompatible work functions.

Current Status: This finding is still applicable as of June 30, 2000. Due to the small accounting staff, the cost to fully segregate each step in the accounting system among employees would not be feasible due to the cost versus expected benefit inherent in providing internal control.

Mrs. Carolyn Ferrell
Executive Director
Badgett Regional Cooperative for
Educational Enhancement, Inc.
Madisonville, Kentucky 42431

Dear Mrs. Ferrell

In planning and performing our audit of the financial statements of the Badgett Regional Cooperative for Educational Enhancement, Inc. (a nonprofit organization) for the year ended June 30, 2000, we considered the Cooperative's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 20, 2000, contains our report on reportable conditions and material weaknesses in the Cooperative's internal control structure. This letter does not affect our report dated November 20, 2000 on the financial statements of the Badgett Regional Cooperative for Educational Enhancement, Inc..

We appreciate the opportunity to bring these comments to your attention. We have already discussed these comments and suggestions with your personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully

York, Neel & Co. - Madisonville, LLP

York, Neel & Co.-Madisonville, LLP
November 20, 2000

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

MANAGEMENT LETTER POINTS

For the year ended June 30, 2000

Title I - Migrant

Coding of Expenditures

Our audit procedures revealed expenditures for the 2000 Migrant Grant in the amount of \$6,043 were incorrectly coded as 2001 Migrant project expenditures. These expenditures were budgeted in the 2000 Migrant Project and should have been coded to that project.

Recommendation: We recommend the coding of expenditures be closely monitored to insure they are charged to the correct Migrant project.

Response: We concur with the recommendation.

Our audit procedures discovered expenditures for equipment purchases (\$6,795) were coded to supplies expense and expenditures for supplies (\$1,126) were coded as equipment expenditures.

Recommendation: We recommend the coding of expenditures for supplies and equipment purchases be closely monitored to insure they are charged to the correct Migrant expenditure code.

Response: We concur with the recommendation.

Perkins Vocational, Title I, Part C

Expenditures

Our audit procedures revealed an expenditure after the June 30, 2000 grant period in the amount of \$257.83 was approved and paid on August 4, 2000.

Recommendation: We recommend all expenditures for goods and services be closely monitored near the end of the grant period to insure they are an allowable cost for the grant.

Response: We concur with the recommendation

Inventory of Equipment Purchases

Our audit procedures revealed equipment costing over \$500 was purchased during the year for the applicable school districts. The Badgett Center did not maintain a inventory of the equipment.

Recommendation: We recommend the Badgett Center receive an inventory listing from each school listing the equipment purchased with Perkins Vocational, Title I money. The Badgett Center should maintain this list until they are no longer associated with the federal grant.

Response: We concur with the recommendation and are in the process of compiling the inventory of equipment.